THE FEDERAL RESERVE BANK BILL[1]

ROBERT L. OWEN

United States Senator from Oklahoma, Chairman of the Senate Committee on Banking and Currency

IT gives me very great pleasure to have the opportunity of presenting to you as briefly as possible the substance of the pending bill, and the purpose of those who are charged with the duty of considering and perfecting that bill.

In the first place, I wish to say that the committee of which I have the honor to be chairman has deeply felt its responsibility. The members have given this question the most careful and painstaking attention. They have desired to hear from every part of the country the different points of view of those who might enable the committee to understand better the great problem before it, and to accomplish its task in a manner acceptable to the country.

I realize that the time is brief in which I may properly hold your attention, and for that reason I shall waste no words in coming directly to the meaning of this bill, its purpose and its plan. The great purpose of the bill is to prevent panic and to give greater stability to the commerce and finance of the United States, to make more efficient the resources which we have in the banking world and to put behind the business of the country the powerful support of the government. The principles of the bill are those which have been worked out successfully in the great civilized nations of western Europe—in England, Germany, France, Belgium, Holland.

The first and most important feature of this bill, in my judgment, is that it concentrates and mobilizes the banking reserves of the nation (which are now not concentrated but widely scattered among 25,000 competing banks), making these concentrated reserves mobile, and more useful to the commerce

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and industry of the nation. This will also protect the banks against one another in a dangerous struggle for reserves.

The banks of the nation have fifteen hundred millions of gold, legal-tender notes, and other forms of money, which the United States by the Act of March 14th, 1900, is obliged to maintain at a parity with the gold dollar. Those reserves are held by 25,000 banks. This bill proposes to concentrate a part of these reserves in twelve reserve banks which are "piped" together, if I may use such an expression, by a provision that a Federal Reserve Board consisting of seven officers of the United States, appointed by the President and confirmed by the Senate, shall have the right to require a reserve bank with idle funds to discount for another in need of current funds, thus meeting the needs of commerce. The amount of this reserve will be between four hundred and five hundred millions, after the system has become established, in about three years.

The next important feature of this bill is to permit the issuance of United States notes, treasury notes, called federal reserve notes, to these twelve banks, upon commercial paper, safeguarded by a gold reserve of 33⅓%, and by the resources and double liability of the member banks. The possible issue of these notes is obviously large.

In addition to these two important features, the mobilization of reserves, and the issuance of these elastic notes under conditions which should prevent undue inflation and which should cause automatic contraction, according to the necessities of our commerce, there are various other minor advantages in this measure. The most important advantage is that which, as a necessary corollary, flows from the concentration and mobilization of these reserves and the issuance of elastic currency notes, and that is a constant, stable market for commercial bills of a qualified class, which we do not have to a sufficient extent in the United States, but which has been developed to a very high degree in the European nations. This system will have the great advantage of giving protection for the future against financial panic, and that is one of its great purposes.

There is another important purpose of this bill. At present the great banks in the central reserve cities are almost of neces-

sity compelled to carry a large part of the reserves of the nation as call loans on the stock market. The abatement of this use of the reserves of the country can be accomplished, to the advantage of the ethically managed banks, and to the advantage of the great merchants and business men of the country, who will thus have available for commerce these national reserves, supplemented by elastic currency, whereas these reserves are now held largely, and of necessity, as call loans, for the stock exchange. The effect of this new system will be to stabilize commerce and finance in the republic, and put an end to the violent fluctuations of interest rates on the stock exchange, which have a certain hypnotic effect upon the entire country, frequently affecting most injuriously the interests of those who are concerned in the great commercial enterprises of the nation.

Another advantage proposed by this bill is the opening of this system freely to the state banks and trust companies, just as far as it can be done with safety.

It will have another effect, namely, the lowering of the bank reserves, which will be entirely justified under this system. When the banks carry their reserves in the federal reserve banks, in case of need they can always obtain—not merely sometimes, but always—the discount of their qualified commercial paper, and thus use commercial paper to replenish the reserves in their own vaults.

Another advantage of the bill is that it proposes to protect the two-per-cent bonds, which is obviously a just and righteous thing to do, because the banks bought these bonds upon the understanding that they should have the right to issue currency against them, and in my judgment the bonds ought not to be permitted by the United States to go below par, by reason of any government act or neglect which would lead to such depreciation below par.

Another advantage of the new bill is that it will also lower the current reserves required to be kept against the savings deposits in the national banks, and permit those deposits to be utilized in greater degree in accomodations of an investment character, particularly in the making of farm loans, which under proper conditions can be made a marketable security. A

market could easily be built up for safeguarded farm mortgages and in that way we could greatly stimulate the productive energies of the agricultural sections of the country, upon which we all largely depend for the prosperity of the nation.

This bill, of course, is only a step in the perfection of the financial system of the United States. We anticipate that in the near future a better system can be devised for obtaining long-time, low-rate loans for the agricultural development of the nation. But that is another problem, and cannot properly be involved in a bill of this character.

Another advantage of the bill is that it permits national banks which are qualified to do so to establish foreign branches, and in that way to serve the foreign interests of our great merchants and those engaged in establishing foreign trade for the people of the United States.

Another advantage of the bill is that of clearing checks at par; and that means the clearing of individual checks—not merely the checks of one reserve bank upon another reserve bank, but the clearing of individual checks—by the reserve banks through these federal reserve banks. There is a very large volume of these checks. They are cleared at par in some places, such as Boston, Kansas City, Atlanta and Nashville, but under this proposed system these checks would be cleared through the federal reserve banks everywhere, giving a much higher velocity to the great credit system of the United States. Another obvious advantage is the diminishing of the volume of these current checks by clearing them promptly through the federal reserve banks.

There are certain objections which have been urged very strenuously to the provisions of this bill. The first great objection is that the banks of the country are not given representation on the Federal Reserve Board. The bankers strenuously urge that since they are required to put their money into the stock of these banks, and since they are expected to put certain reserves into these banks, they ought to have the right of representation on the Federal Reserve Board which exercises general supervision over this system. In the bill the banks are authorized to elect six out of nine directors managing each of

the federal reserve banks, while the United States has but three out of the nine, appointed by the Federal Reserve Board. In that way the direct management and safeguarding of the funds in any federal reserve bank is in the hands of men selected by the banks themselves comprising the membership of that particular reserve bank. The appointment of three directors by the United States is more than justified, because the United States is expected to put in its own funds, between two hundred and three hundred millions, and to furnish its credit and power to the system. That is another great advantage of this system. It makes useful to the country from two to three hundred millions of money now locked up in the vaults of the Treasury of the United States. The answer to the demands of the bankers for part of the governmental control is first one of precedent, based upon human experience. The Bank of Germany, the Reichsbank, which is a great public utility bank, has its supervisory board, a curatorium, consisting of five men. At its head is the Chancellor of the Empire, with supreme authority over the Reichsbank. The Prussian Minister of Finance by custom is always nominated by the German Emperor as a member of the curatorium. The other three members of the curatorium are three members of the German Bundesrath, corresponding with our United States Senate. The nine directors who have administrative charge of the Reichsbank are all appointed by the German Emperor upon the nomination of the German Bundesrath. The stock is held individually by private persons who are content with government management. That bank has the right to issue legal-tender notes, elastic notes issued against commercial paper, and automatically retired under a penalty of five per cent interest. That German Bank is a great public utility bank, protecting the commerce and industry of the German Empire, and Germany sets a sound precedent in having its bank a purely government institution. Nobody ever charges it with being a political institution in an offensive sense. It would be regarded as scandalous and impossible for the directors to attempt to use the powers of the great institution for private or partisan purposes. It is impossible to think of such a thing.

The French Bank, the Bank of France, is the great public utility bank of France. Its governor, its sub-governor and the managers of the 188 branches of the Bank of France are appointed by the President of France upon the nomination of the Minister of Finance. The stock is held by private persons, but it is a governmentally controlled bank, so controlled because intended to protect the commerce and industry of the French Republic.

The Bank of England in like fashion is a great public utility bank. It is not so well contrived, in my judgment, as either the Bank of Germany or the Bank of France; but upon the board of governors of the Bank of England is no banker, bill broker, or bill discounter. It has on its board some heads of acceptance houses, however—men familiar with great commercial enterprises, men trained in the school of commerce. The reason for this practise of England, Germany and France, is that these banks are great public utility banks. They are not exercising the function of making money for their stockholders, but they are safeguarding the commerce and industry of these nations, stabilizing the interest rate, protecting the national gold reserve, and giving stability to the business of those nations.

In the United States these federal reserve banks are not to be mere private enterprises for the sole purpose of making money for the stockholders; although it is proposed by this bill to allow stockholders six per cent (I believe that is the consensus of opinion). It is not intended that the policy of these banks, however, should be to make money for the stockholders or directors; their function must be to protect the commerce of the nation, to stabilize the interest rate and to give permanency to the prosperity which this country ought to enjoy continuously, with its wonderful natural resources, and with the mutual patriotic coöperation of the splendid and powerful men who have been developed in the free atmosphere of America.

Another objection urged by the bankers to this proposed bill is that the government should not issue the currency; that the currency ought to be issued by the banks. The answer to that

is first an economic one. It may be argued that a bank note corresponds with a bank deposit, and the argument has validity as far as it goes—that is, in as far as the depositor of the bank would be content to receive the note of the bank in exchange for his deposit, but that does not state the whole truth. Those notes are made current throughout the United States. The government of the United States by Act of March 14, 1900, is compelled to maintain those notes on a parity with the gold dollar; and ought to be so compelled, because those notes are current from hand to hand among our citizens, and no citizen ought to be required to pause for a moment to ascertain the condition of the bank emitting that note. When he takes a dollar under the safeguard of this great nation of ours he ought to be assured that that dollar is as good as a gold dollar. For that economic reason it is better that the dollar which is issued should be a dollar issued by the government of the United States as a direct government obligation. After all, the government is obliged to redeem it under the law. Even the holder of a national bank note has the right to demand redemption in legal tender, and the holder of legal tender has the right to demand redemption in gold; and the Act of March 14, 1900, requires the United States to maintain these national bank notes and all other current money on a parity with gold. So, since the note of all of the people is better than the note of some of the people, and since it is obviously a wise economic policy to have the dollars which are current throughout our country of the very highest character, the attitude of the administration in having these federal reserve notes government notes is fully justified. Moreover, the issue of such currency has a positive money earning power of over one per cent which ought to belong to and be enjoyed by the United States and not by private bankers.

There is also a political reason. The Democratic national platform has three times in the last sixteen years declared against the issue of the money of the nation by private corporations and in favor of the issuance of the currency by the nation itself.

The country banks have raised a great cry against the clear-

ing of individual checks at par by the federal reserve banks. They say that they will lose money by it. The answer to that is that this bill provides that they may charge their customers for these checks. They reply that their "customers will not stand for it;" that they prefer to have these checks charged to the merchants of the cities; that is, that when these checks come back to the country banks for collection they will then charge collection and exchange to the merchants in the cities, who receive these local checks and send them for collection, under the obvious idea that the merchants of the cities are not aware that they are being taxed in this small way, and under the idea, I suppose, that the customers of the country banks are making a profit at the expense of the city merchants, and that the city merchants have no way of recouping themselves. I take it that the city merchants are able to take care of themselves in a trade of that kind, and that the charge at last rests where it belongs, upon the local customer of the country bank. The bill can easily provide that the Federal Reserve Board shall fix the rates to be charged upon these checks, and the country banker need not lose anything he is justly entitled to. If he transfers funds from a country town to St. Louis, Chicago, or New York, he performs for the depositor a service for which he has a just right to charge. The Federal Reserve Board can fix that charge so there will be no extortion on the one side or failure to pay justly on the other.

I have given you a brief sketch of this matter, and if because of the brief time I am privileged to speak I have not covered certain points so as to be perfectly clear, if any gentlemen desire to ask me any questions I shall be glad to answer them.

A VOICE: Have you or the administration any objection to the Federal Reserve Board being appointed for life in a similar manner to the Supreme Court justices, in order that there may be no suspicion of political influence? Has that thought been considered at all?

MR. OWEN: No, that thought has not been considered. Nobody has ever suggested a life appointment. The directors of the German Bank are appointed for life, but in our country men live too long to be appointed for life. They may become

decrepit. They may become afflicted with mental decadence or with physical weakness. They may become from a variety of physical or mental causes unfit to continue in office. But it has been thought wise to give them a term of eight, ten or twelve years—a sufficient length of time to make the positions attractive to great men. No man ought to go on that board who is not a great man, the equal intellectually, morally, ethically, in every respect, of any man who adorns our great Supreme Court bench.

A VOICE: Do you think an eight-years' appointment would bring these great men ?

MR. OWEN: I think it would. We have a great many men in this country who, having made their own fortunes and having distinguished themselves in commerce and finance, would be willing and glad to render public service to their countrymen.

MR. SELIGMAN: A great many people seriously question the right, or advisability, of the Federal Reserve Board's compelling the reserve banks to discount for one another. That is a thing that has caused trouble in the minds of a great many people.

MR. OWEN: The nearest approach we can get to a central bank with twelve regional banks is to "pipe" the regional banks under the safeguard of a wise and conservative administration.

MR. SELIGMAN: Is it a safe coöperation?

MR. OWEN: It is as safe as to put the funds in a common reservoir with no requirement of coöperation needed.

A VOICE: Why should the national banks be compelled to go into the organization?

MR. OWEN: They are not compelled to come into the organization. They can go out of it if they don't like it. The national banks of this country have been formed in accordance with the national banking law. Our banking system has proved to be a great commercial system for the United States. It has developed the industry of the little village and of the cross-road. It has preserved the savings of the people of the small town for use in that town, and in this way has preserved the unit upon which the greatness of America must rest and does rest. These

national banks which have been built up are of necessity supervised by the government, because our system is different from the branch banking systems of Europe, where one great banking house puts a branch here, there and yonder, and with its by-laws controls each branch.

Through the provisions of its banking laws and the checks provided by the comptroller of the currency and his examiners, the United States government provides for the protection of the smaller banks against the unwisdom and inexperience which might easily be found where a few men come together with $25,000 in a small town and go into the banking business without experience in that business. The government places at their disposal the large banking experience of the country. The small banks are instructed continuously against putting themselves in jeopardy by unwise banking. When the government of the United States establishes this new system, which has been found necessary to prevent panics, and gives the national banks as well as the state banks and trust companies the advantage of coöperation, under government safeguard, if a national bank happens to be unwilling to conform to the reasonable and just requirements demanded by the national welfare and the bank's own best interest, it would be a vital error on the part of the government to permit this whole system to be destroyed, by leaving it optional whether a bank avails itself of it or not. If the indifference of a bank, its lack of understanding, its apathy, its neglect or its ignorance of the law and its advantages is to be controlling, the system would not be established with any certainty. Men would stand off and say, "Let others join this ; I will see how it works before I go into it." The consequence would be that the possible advantages of this system would not be realized. It is a righteous and just thing that when the government has worked out carefully the details of this plan, and after long study is well assured of its advantages, having put the microscope upon the bill with extreme care to see that it is just and sound in every particular—it is righteous and just, I say, to make the plan compulsory. Obviously the system itself cannot be permitted to fall by leaving it merely optional. It ought to be made a success. It deserves

to be made a success. The national interest requires and therefore justifies it.

A VOICE: It seems to me that there are two viewpoints. In the first place, if the national banks, which hold about one-third of the banking resources of the country, do not come in, the state banks are quite apt not to come in. And if the national banks are compelled to come in if they do not want to, why should not they have the option of having their bonds redeemed at par? How can the system be a success if only one-third of the banks come in?

MR. OWEN: The national banks have about eight thousand millions of resources. The state and other banks have about nine thousand millions of resources, and they are abundantly strong to make this system a success. I have not the slightest doubt in the world that the national banks will as a class almost unanimously avail themselves of this system. The proper attitude of the government toward the bonds I have already explained.